

## Corporate Governance Report

### Corporate Governance Practices

The Board of Directors of the Company firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure its strict compliance with relevant regulatory requirements, a high level of transparency in corporate governance and an excellent performance in operation.

During the year, the Board of the Directors are of the view that the Company had complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code") except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the management team has been well maintained and there exists no problem of over-centralization of management power on one person.

The Company will observe the latest development of corporate governance requirements and will review and update the existing practices as and when required.

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Listing Rules. Further to the Company's enquiry, all Directors confirmed that they had complied with the Model Code throughout the year 2005.

### Board of Directors and Supervisors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Wang Chengming, Mr. Chen Longxing, Mr. Huang Dinan, Mr. Han Guozhang, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhang Rongkun, Mr. Zhu Kelin, Mr. Yao Qun, Mr. Lin Haitao, Mr. Wang Minwen and Mr. Li Songjian, as well as independent non-executive directors, namely Mr. Yao Fusheng, Mr. Cheung Wai Bun and Mr. Lei Huai Chin.

All Independent Non-executive Directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company considered such directors to be independent during the year.

The Board of Directors is responsible for the formulation of overall development strategy of the Group, monitoring of its financial performance and maintaining an effective supervision over the management team's work. The board members aim at maximizing shareholders' value in the discharge of their duties and responsibilities. When determining the Group's business objectives and development direction, the Board takes into account the latest economic and market situations. Daily operations and management of the Company are entrusted to the management team.

Every board member has the right to inspect various documents and relevant materials of the board of directors, to consult the joint Company Secretaries on regulatory and compliance matters and to seek external professional advice when necessary. The joint Company Secretaries continuously advise all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

As at the date of this report, the Supervisors of the Company are Mr. Cheng Zuomin, Mr. Xie Tonglun, Ms. Ling Feifei, Mr. Zheng Weijian, Mr. Zhang Jun and Ms. Miu Xiufeng.

The Company has convened 6 board meetings during the year, the attendance of each director is detailed as follows:

<b>Directors</b>	<b>Number of meetings</b>	<b>Actual attendance</b>
Mr. Wang Chengming	6	6
Mr. Chen Longxing	6	6
Mr. Huang Dinan	6	6
Mr. Han Guozhang	6	6
Mr. Wang Qiang	6	6
Mr. Li Manping	6	6
Mr. Yu Yingui	6	6
Mr. Zhang Rongkun	6	6
Mr. Zhu Kelin	6	6
Mr. Yao Qun	6	6
Mr. Cheng Xinhua <i>(resigned with effect from 24 January 2006)</i>	6	6
Mr. Lin Haitao <i>(appointed with effect from 27 March 2006)</i>	-	-
Mr. Wang Minwen	6	6
Mr. Li Songjian	6	6
Mr. Yao Fusheng	5	5
Mr. Cheung Wai Bun	5	5
Mr. Lei Huai Chin	5	5

### Nomination of Directors

The Board of Directors has not established the Nomination Committee. Pursuant to the Company's Articles of Association, shareholders of the Company are entitled to propose candidates. The proposal for the appointment of directors should be submitted to the annual general meeting for approval. The intention for proposing director candidates and the acceptance of nomination by the candidates should be submitted in writing to the Company no earlier than the date of dispatch of annual general meeting notice and no later than the annual general meeting. Time limits for nomination and acceptance of nomination should not be less than 7 days.

### Chairman and Chief Executive Officer

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. At present, Mr. Wang Chengming is the Chief Executive Officer, the Chairman of the Board and an Executive Director. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the management team has been well maintained and there exists no problem of over-centralization of management power on one person.

### Tenure of Non-executive Directors

All directors of the Company are elected at general meetings, with a tenure of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

### Audit Committee

Our audit committee, comprising Mr. Cheung Wai Bun, Mr. Yao Fusheng, Mr. Lei Huai Chin and Mr. Wang Minwen, with Mr. Cheng Wei Bun as chairman has reviewed the accounting policies adopted by the Group with the management and the Company's external auditors, and discussed on matters concerning internal control and financial report, including review and approval of the unaudited interim financial statements.

Pursuant to C.3 of the Code, the Board of Directors adopted the terms of reference of the audit committee on 29 June 2005. Under the Articles of Association of the Company, the terms of reference of the Audit Committee are subject to approval by the general meeting of shareholders. An extraordinary general meeting was held on 27 March 2006 at which the terms of reference of the audit committee was duly approved.

The first meeting of the Audit Committee was convened in August 2005 and was attended by all committee members. The second meeting was convened in November 2005. With the exception of Mr. Yao Fusheng, all members attended the meeting. The Audit Committee has reviewed the execution of the budget by the Company, proposed measures for minimizing foreign exchange risks, and risks in association with fluctuation in raw material prices, and for improving management over account receivables. The audit committee has also discussed the matters regarding financial controls and internal controls.

### Remuneration Committee

Pursuant to code provision B.1.1 of the Code, the Board of Directors established a Remuneration Committee on 29 June 2005 and adopted its terms of reference. The Remuneration Committee is mainly responsible for making recommendations to the Board of Directors regarding the overall compensation policy and structure for directors and senior management of the Company, and the formulation of proper and transparent procedures accordingly.

The Remuneration Committee comprises Mr. Wang Qiang, Mr. Yao Fusheng and Mr. Lei Huai Chin. Mr Wang Qiang is the chairman of the Remuneration Committee. Pursuant to the Articles of Association of the Company, the terms of reference of the Remuneration Committee are subject to approval by the general meeting of shareholders. An extraordinary general meeting was held on 27 March 2006 during which the terms of reference of the Remuneration Committee was duly approved in accordance with the Articles of Association of the Company.

A meeting of the Remuneration Committee has been convened in December 2005 during which all members of the committee were present. The Remuneration Committee has reviewed the appraisal work of the Company, reviewed and made proper recommendation on the management remuneration methods of the Company and its subsidiaries, in order to optimize the remuneration policy and incentive systems of the Company.

### Auditors' Remuneration

In 2005, remuneration to Ernst & Young, auditors of the Company, is summarized as follows:

For services provided	Amount paid/payable
	<i>RMB 000's</i>
Review of interim accounts of the Group for 2005	5,000
Annual audit for 2005 for the Group	13,530
Statutory audit for subsidiary companies	4,170
Capital Verification for increase in capital following the Initial Public Offering	500
Training	300
<b>Total</b>	<b>23,500</b>

### Directors' and auditors' responsibilities for accounts

The directors acknowledge their responsibilities for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2005 the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the external auditors to the shareholders are set out on page 44.

## Internal Control

The Board of Directors is responsible for the effective implementation of internal control system within the Group. However, such a system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore, it can only provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial losses or fraud.

The management will assist the Board of Directors in implementing the Board's policies and measures on risk management and internal control, determining and evaluating the confronted risks, and participating in design, operation and supervision of appropriate internal control measures in order to mitigate and control such risks.

The Group has established major procedures to review the adequacy and completeness of the internal control system, including :

- Checks on internal control procedures of various enterprises within the Group at regular intervals
- Review of the applicability and implementation of such procedures to the relevant enterprises at regular intervals
- Examination of the effectiveness of such procedures at regular intervals
- Modifying or supplementing the internal control procedures in force (including procedures of relevant subsidiaries) as necessary
- Setting up standardized internal control system for the Group as a whole

## Risk Management

The directors of each of our subsidiary companies are responsible for the monitoring of various risks of the relevant companies as well as the establishment and effective implementation of risk management policies, while internal audit department of the Group carries out routine internal check to ensure effective implementation of such policies. In addition, some of our Executive Directors and members of the senior management of the Group are also directors of some of our major operating subsidiaries hence enhancing the management over various risks of relevant companies.

## Disclosure of Information and Investor Relations

The Company recognizes the importance of good communications with its investors. Requests for meetings and factory visits from investors have been handled with great care by our investor relations team upon receipt. To help investors' further understanding of the Company's various strategies and plans for future development, we attend investment conferences and carry out non-deal roadshows at regular intervals. As the investors are becoming more and more interested in the Company and its various business divisions, the Company will continuously make great efforts to further enhance transparency of the enterprise.